



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Department of Commerce*

*For the Two Fiscal Years Ended  
June 30, 2009*

SEPTEMBER 2009

LEGISLATIVE AUDIT  
DIVISION

09-16

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

September 2009

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce (department) for the two fiscal years ended June 30, 2009. The report contains five recommendations related to the department's compliance with state law, state accounting policy, and federal regulations.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Commerce Tony Preite, Director

Andy Poole, Deputy Director, Business Resources Division  
Administrator, and Energy Promotion and Development Division  
Administrator

Marty Tuttle, Chief Legal Counsel

Barb Charlton, Management Services Division Administrator

Dave Cole, Community Development Division Administrator

Betsy Baumgart, Montana Promotion Division Administrator

Bruce Brensdal, Housing Division Administrator

Carroll South, Board of Investments Executive Director

Michelle Barstad, Montana Facility Finance Authority Executive  
Director

Dave Desch, Research and Commercialization Technology Executive  
Director

Paul Reichert, Montana Heritage Preservation and Development  
Commission Executive Director

For additional information concerning the Department of Commerce,  
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## REPORT SUMMARY

### Department of Commerce

This audit report is the result of our financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2009. We issued an unqualified opinion on the financial schedules contained in this report, which means the reader may rely on the financial information presented in the financial schedules, as well as the supporting data on the state's accounting system.

This report contains five recommendations to the department. The previous audit report contained seven recommendations. The department implemented six recommendations and did not implement one recommendation. The recommendation not implemented relates to Section 8 vouchers benefit calculations and is discussed in this report beginning on page 5.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

#### Recommendation #1.....6

We recommend the department implement procedures to recalculate housing assistance payments when the initial calculation includes fair market rent or utility rates from the previous year.

Department Response: Concur .....B-3

#### Recommendation #2.....7

We recommend the department enhance controls to ensure the required number of housing quality control reinspections are conducted annually at each field agent office, as required by federal regulations and the department's administration plan.

Department Response: Concur .....B-3

#### Recommendation #3.....8

We recommend the department submit the Section 8 Management Assessment Program report within 60 days after fiscal year-end, as required by federal regulations.

Department Response: Concur .....B-4

Recommendation #4.....8

We recommend the department enhance internal controls to include a review of special claims approved by program managers to ensure proper and complete payment of special claims as required by federal regulations.

Department Response: Concur .....B-4

Recommendation #5.....9

We recommend the department:

- A. Establish a coal area highway improvement account in the state special revenue fund as required by state law, or
- B. If necessary, seek a change in state law to eliminate the requirement for the coal area highway improvement account.

Department Response: Concur .....B-4



# Chapter I – Introduction and Background

## **Introduction**

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2009. The accompanying financial schedules include activity that we audit as part of other engagements. These audits are the Board of Housing (audit reports 08-07 and 08-07A), the Board of Investments (audit reports 08-04 and 08-04A), and the Montana Facility Finance Authority (audit report 08-12). These reports are available on request.

The objectives of this audit were to:

1. Determine whether the department complied with applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the department.
3. Determine whether the department's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2009.
4. Determine the status of prior audit recommendations.

This audit report contains five recommendations intended to improve the department's compliance with state law, state policy, and federal regulations. In accordance with §5-13-307, MCA, we have disclosed the cost, if significant, of implementing these recommendations.

Areas of concern, if any, regarding compliance with laws and regulations or state accounting policy deemed not to have a significant effect on the successful operations of the department's programs are not specifically included in this report, but have been discussed with management.

In accordance with §17-8-101, MCA, we reviewed the department's Internal Service funds. Based upon our review, the fund equity balances were reasonable and fees charged were commensurate with costs for each of the department's Internal Service funds.

## **Background**

The Department of Commerce is responsible for encouraging and promoting economic and community development. As stated on the department's website, the department's mission is:

“The Department of Commerce through its employees, community partners, public outreach, and media contact enhances economic prosperity in Montana; fosters community led diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana's positive national and international image.”

The department consists of six divisions and several entities attached to the department for administrative purposes. The Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Coal Board, Hard Rock Mining Impact Board, State-Tribal Economic Development Commission and Montana Heritage Preservation and Development Commission are administratively attached to the department. The following is a description of the various divisions and entities comprising the department, including the number of full-time equivalent (FTE) positions for each.

**Director's Office/Management Services Division** (18.17 FTE) - consists of two programs. The Director's Office administers the department and its divisions by providing executive, administrative, legal, and policy guidance. The Management Services Division provides internal support to all department divisions such as budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training. The division also provides analysis, development, maintenance, and supervision of department data processing systems and hardware.

**Montana Promotion Division** (28.10 FTE) - is responsible for promoting a positive image of the state through advertising, publicity and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies.

**Business Resources Division** (36.50 FTE) - includes programs to enhance Montana's economic and business climate, assist businesses and communities in achieving economic prosperity, and build the economic base of Montana through business creation, expansion, and retention efforts.

**Community Development Division** (18.61 FTE) - works with federal, state, and local governments and the private sector in areas of community development. The division provides financial and technical assistance through three primary programs. These

include the Community Development Block Grant Program (CDBG), Community Technical Assistance Program (CTAP), and Treasure State Endowment Program (TSEP). The Coal Board and the Hard Rock Mining Impact Board are independent citizen boards appointed by the governor that are attached to the division for administrative support.

**Energy Promotion and Development Division** (5.00 FTE) - serves as the front-line for state support for energy development in Montana. The division, created in 2007, is poised to assist in all aspects of potential energy projects, both energy production facilities and supportive energy delivery infrastructure.

**Montana Facility Finance Authority** (3.00 FTE) - issues tax-exempt bonds for eligible facilities at interest rates significantly below those that would be available at taxable bond rates. Eligible facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers.

**Board of Investments** (34.00 FTE) - acts as the sole authority to invest state funds in accordance with the Montana Constitution and statutory requirements. The board manages eight investment portfolios: 1) the All Other Funds portfolio; 2) Montana Domestic Equity Pool; 3) Short-Term Investment Pool; 4) Trust Funds Bond Pool; 5) Retirement Funds Bond Pool; 6) Montana Real Estate Pool; 7) Montana International Equity Pool; and 8) Montana Private Equity Pool. The board also administers several programs in the Enterprise Fund, which issue bonds to assist local governments, cities, and school districts, or to provide funds to improve the state's economy.

**Board of Research and Commercialization Technology** (2.00 FTE) - provides a predictable and stable source of funding for research and commercialization projects; expands and strengthens research efforts for the state's basic industries to increase their impact on the state's economy; and expands research efforts into areas beyond the scope of the state's basic industries.

**Housing Division** (47.00 FTE) - administers the federal Section 8 Housing Programs which provide rent subsidies to eligible low-income families and individuals. The Montana Home Investment Partnership Program (HOME) provides funds to strengthen public/private partnerships to provide more affordable housing. The Board of Housing helps provide decent, safe, sanitary, and affordable housing to lower income individuals and families. Board of Housing moneys are made available through issuance of revenue and general obligation bonds.

**Montana Heritage Preservation and Development Commission** (24.25 FTE) - manages certain state-owned historic properties located at Virginia City, Nevada City, and Reeder's Alley.

### **Prior Audit Recommendations**

We performed the prior audit of the department for the two fiscal years ended June 30, 2007. The report contained seven recommendations. The department implemented six recommendations and did not implement one recommendation. The recommendation not implemented concerns Section 8 vouchers benefit calculations and is discussed in this report beginning on page 5.

## Chapter II – Findings and Recommendations

### **Section 8 Housing Programs**

The department administers the federal Section 8 Housing Vouchers and Section 8 Special Allocations federal programs. These programs provide rental assistance to help very low income families afford decent, safe, and sanitary rental housing.

Federal regulations, OMB Circular A-133, require the department to maintain internal control over federal programs that provides reasonable assurance that federal awards are managed in compliance with requirements that could have a material effect on its federal programs. The issues discussed in the following sections identify how the department could improve internal controls over the Section 8 federal programs as well as compliance with OMB Circular A-133 requirements.

### **Section 8 Vouchers Program**

The department maintains centralized control over the vouchers program, but contracts with field agents throughout the state who assist with eligibility determinations, inspections of the rental units, and initial calculations of housing assistance amounts. Documentation accumulated by the field agents is included in files maintained by the department and relevant information is input to the department's Housing Assistance Payment Plan Yearly (HAPPY) system. The next three recommendations relate to the vouchers program.

### **Housing Assistance Payments**

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**The department does not consistently use proper information in calculating Housing Assistance Payments.**

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The amount of housing assistance paid by the vouchers program is originally calculated by the field agents when they update information in HAPPY. Information such as fair market rent for the area, household membership, income, rental unit type, number of bedrooms, and allowance for utility costs paid by the client is used to calculate the housing assistance payment. The documentation supporting the housing assistance calculation is sent to the department, and department staff verify and correct field agent input to HAPPY prior to approving the housing assistance payment. Department staff also input changes in fair market rent and utility rates data in HAPPY.

In our prior audit, we identified instances where the department did not identify and correct information in the housing assistance payment calculations prior to approving the payment. During this audit, we reviewed 52 housing assistance payment calculations and noted six instances where the department approved assistance payments based

on incorrect data. Each of the six errors included incorrect utility rates and one also contained an incorrect fair market rent. Three of the six errors resulted in inappropriate assistance payments made to participants. The department cited staff turnover and late receipt of updated utility and fair market rent data as reasons for the errors.

New fair market rent and utility rates are effective annually in November. The department should ensure any housing assistance payments calculated prior to the department updating HAPPY with the new rates are recalculated when the new rates are available. The department should also require the vendor to provide updated utility rates far enough in advance to minimize the need for housing assistance payment recalculations.

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**RECOMMENDATION #1**

*We recommend the department implement procedures to recalculate housing assistance payments when the initial calculation includes fair market rent or utility rates from the previous year.*

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## **Quality Control Reinspections**

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**The department did not conduct a sufficient number of housing reinspections necessary to meet requirements outlined in its administration plan.**

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Field agents perform rental unit inspections at the time of initial lease and annually thereafter. Federal regulations require the department to perform quality control reinspections to gain assurance the inspections reported by the field agents accurately reflect the condition of the properties. The department's administration plan requires rental unit inspections for five percent of total units leased to be conducted annually as part of field agent office visits. To achieve the required number of inspections, department staff calculates and conducts reviews of five percent of the vouchers located in each field agent region.

During the audit, we reviewed the list of quality control reinspections for the vouchers program and noted the department did not meet the five percent requirement in either fiscal year of our audit period. In addition, the department did not conduct field agent office visits for two of the ten offices during fiscal year 2009. The department cited staff turnover as the reason for the shortfall. Although the department was able to demonstrate the reinspection requirement was met by relying on inspections conducted by another housing program, the department's control procedures, as designed, do not

ensure the department conducts the required number of inspections at each field agent office for the vouchers program each year. If the department intends to continue to include inspections conducted by other housing programs to comply with the federal requirement, the department should amend its administration plan to acknowledge those inspections.

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#### **RECOMMENDATION #2**

*We recommend the department enhance controls to ensure the required number of housing quality control reinspections are conducted annually at each field agent office, as required by federal regulations and the department's administration plan.*

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## **Federal Reporting**

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### **The department missed the deadline to submit a required federal report.**

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The Section 8 Management Assessment Program (SEMAP) report summarizes the department's compliance with key vouchers program requirements. The report is due to the federal government within 60 days of the end of each fiscal year. Department staff indicated they attempted to submit the report electronically on September 1, 2008, but access to submit the report was not available. The department submitted a SEMAP paper report for fiscal year 2008, which was due on August 29, 2008, on September 10, 2008. As a result, the federal government assigned the department an overall performance rating of "troubled," which means the department is subject to additional monitoring conducted by the federal government and other requirements.

Additional requirements for a "troubled" agency include an on-site review to assess the magnitude and seriousness of noncompliance, development and implementation of an approved corrective action plan, and restriction on the use of administrative fee reserves. Department staff represented that these requirements have not been enforced by the federal government based on the results of an on-site review of the vouchers program conducted by the federal Office of Public Housing in June 2008, which documented the department's compliance with SEMAP indicators. However, if enforced, the staff time necessary to address federal requirements for a "troubled" agency would be significant.

Department staff wrote a letter citing various reasons for late submission, including belief the report was due 90 days after fiscal year-end. Subsequent late submissions could result in loss of funding for the federal vouchers program.

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**RECOMMENDATION #3**

*We recommend the department submit the Section 8 Management Assessment Program report within 60 days after fiscal year-end, as required by federal regulations.*

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## **Section 8 Special Allocations**

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**The department did not pay special claims in accordance with federal requirements.**

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The department contracts with property owners to provide housing units to eligible tenants at rates specified in the agreement. The portion of rent not paid by the tenant is paid to the property owner by the Section 8 special allocations program. In certain instances, property owners may also be paid for vacancy losses, unpaid rent, and tenant damages. Property owners request these payments through the special claims process.

The department received 79 special claims from property owners during the audit period. During the audit, we noted the amounts paid for special claims were not properly supported and were inconsistent with federal guidelines. Of the six special claims tested, three contained errors in how amounts paid were calculated, ranging from a \$49 overpayment to a \$713 overpayment. In addition, \$673 of one claim was denied and not paid, but the denial was not supported.

Department staff cited both human error and the fact there was no review of decisions made by program managers as reasons for the errors. The department should implement control procedures to review program manager decisions on special claims prior to finalizing them.

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**RECOMMENDATION #4**

*We recommend the department enhance internal controls to include a review of special claims approved by program managers to ensure proper and complete payment of special claims as required by federal regulations.*

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## **Coal Board**

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**The department did not establish the Coal Area Highway State Special Revenue Fund account as required by state law.**

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Section 90-6-202, MCA, requires the coal board to establish an account in the state special revenue fund for coal area highway improvement. However, this fund does not exist on the state's accounting records. Department staff indicated they are no longer involved in secondary road maintenance, so there is no need for the account. The department should comply with the requirements of this state law until such time as the law is changed.

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### **RECOMMENDATION #5**

*We recommend the department:*

- A. *Establish a coal area highway improvement account in the state special revenue fund as required by state law, or*
  - B. *If necessary, seek a change in state law to eliminate the requirement for the coal area highway improvement account.*
-



# **Independent Auditor's Report and Department Financial Schedules**



Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the department of Commerce for each of the fiscal years ended June 30, 2008, and 2009. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Commerce for each of the fiscal years ended June 30, 2009, and 2008, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

August 17, 2009



DEPARTMENT OF COMMERCE  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund
FUND BALANCE: July 1, 2008	\$ (6,148,794)	\$ 5,000,330	\$ (19,508,117)	\$ (40,839)	\$ 170,780,284	\$ 742,484	\$ 499,966,368
ADDITIONS							
Budgeted Revenues & Transfers-In	1,710	37,278,929	13,588,172		37,786,138	6,295,457	
Nonbudgeted Revenues & Transfers-In	3,269	40,286	358	26	58,394,541	180	844,410,179
Prior Year Revenues & Transfers-In Adjustments		(360)	227,763		(852,277)		
Direct Entries to Fund Balance	18,517,867	51,288,614	24,955	1,007,863	(1)	(49,671)	
Total Additions	18,522,846	88,607,469	13,841,248	1,007,889	95,328,401	6,245,966	844,410,179
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	17,845,929	55,068,316	9,016,029	1,013,547	93,576,138	5,573,886	
Nonbudgeted Expenditures & Transfers-Out		(1,226,886)	(75,000)		648,927	992,251	919,055,656
Prior Year Expenditures & Transfers-Out Adjustments	(30,328)	(532,733)	(441,476)		(23,788)	3,458	
Total Reductions	17,815,601	53,308,697	8,499,553	1,013,547	94,201,277	6,569,595	919,055,656
FUND BALANCE: June 30, 2009	\$ (5,441,549)	\$ 40,299,102	\$ (14,166,422)	\$ (46,497)	\$ 171,907,408	\$ 418,855	\$ 425,320,891

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE  
 SCHEDULE OF CHANGES IN FUND BALANCES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund
FUND BALANCE: July 1, 2007	\$ <u>(541,505)</u>	\$ <u>(2,637,523)</u>	\$ <u>(8,965,372)</u>	\$ <u>0</u>	\$ <u>163,362,312</u>	\$ <u>481,401</u>	\$ <u>924,558,963</u>
ADDITIONS							
Budgeted Revenues & Transfers-In		5,884,528	12,009,082		38,922,967	6,098,690	
Nonbudgeted Revenues & Transfers-In	3,230	13,806	274		63,554,927	41	995,917,395
Prior Year Revenues & Transfers-In Adjustments		76	211,961		(415,607)		(4,075,806)
Direct Entries to Fund Balance	<u>9,416,554</u>	<u>25,941,015</u>		<u>397,275</u>		<u>(49,614)</u>	
Total Additions	<u>9,419,784</u>	<u>31,839,425</u>	<u>12,221,317</u>	<u>397,275</u>	<u>102,062,287</u>	<u>6,049,117</u>	<u>991,841,589</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	15,050,562	24,626,001	23,699,113	438,114	94,719,682	5,720,095	
Nonbudgeted Expenditures & Transfers-Out		100,000			210,311	67,160	1,420,509,990
Prior Year Expenditures & Transfers-Out Adjustments	<u>(23,489)</u>	<u>(524,429)</u>	<u>(935,051)</u>		<u>(285,678)</u>	<u>779</u>	<u>(4,075,806)</u>
Total Reductions	<u>15,027,073</u>	<u>24,201,572</u>	<u>22,764,062</u>	<u>438,114</u>	<u>94,644,315</u>	<u>5,788,034</u>	<u>1,416,434,184</u>
FUND BALANCE: June 30, 2008	\$ <u><u>(6,148,794)</u></u>	\$ <u><u>5,000,330</u></u>	\$ <u><u>(19,508,117)</u></u>	\$ <u><u>(40,839)</u></u>	\$ <u><u>170,780,284</u></u>	\$ <u><u>742,484</u></u>	\$ <u><u>499,966,368</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
 Additional information is provided in the notes to the financial schedules beginning on page A-11.



DEPARTMENT OF COMMERCE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits		\$ 62,185						\$ 62,185
Taxes	\$ 3,269	196,168	\$ 205	\$ 26	\$ 924			200,592
Charges for Services		255,034			849,700	\$ 6,049,024		7,153,758
Investment Earnings		465,484	15,487		57,672,130		\$ 7,053,930	65,207,031
Sale of Documents, Merchandise and Property		50,710			44,500			95,210
Rentals, Leases and Royalties		179,642						179,642
Contributions and Premiums		1,995					837,356,249	837,358,244
Grants, Contracts, and Donations	1,709	671,724				551		673,984
Transfers-in		35,422,773	1,536,741		1,225,000			38,184,514
Federal Indirect Cost Recoveries					16,185	246,062		262,247
Miscellaneous	1	13,140						13,141
Federal			12,263,860		35,519,963			47,783,823
Total Revenues & Transfers-In	4,979	37,318,855	13,816,293	26	95,328,402	6,295,637	844,410,179	997,174,371
Less: Nonbudgeted Revenues & Transfers-In	3,269	40,286	358	26	58,394,541	180	844,410,179	902,848,839
Prior Year Revenues & Transfers-In Adjustments		(360)	227,763		(852,277)			(624,874)
Actual Budgeted Revenues & Transfers-In	1,710	37,278,929	13,588,172	0	37,786,138	6,295,457	0	94,950,406
Estimated Revenues & Transfers-In	1,710	49,584,456	25,324,587		36,445,036	6,215,373		117,571,162
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (12,305,527)	\$ (11,736,415)	\$ 0	\$ 1,341,102	\$ 80,084	\$ 0	\$ (22,620,756)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits		\$ 12,185						\$ 12,185
Taxes		(3,295)						(3,295)
Charges for Services		(19,089)			\$ 2,347	\$ 59,772		43,030
Investment Earnings		(367,357)	\$ (10,266)		584,711			207,088
Sale of Documents, Merchandise and Property		2,236			(500)			1,736
Rentals, Leases and Royalties		(23,488)						(23,488)
Contributions and Premiums		(18,005)						(18,005)
Grants, Contracts, and Donations		(59,838)	(18,423)			(0)		(78,261)
Transfers-in		(11,827,227)	(463,259)					(12,290,486)
Federal Indirect Cost Recoveries					(0)	20,312		20,312
Miscellaneous		(1,649)						(1,649)
Federal			(11,244,467)		754,544			(10,489,923)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (12,305,527)	\$ (11,736,415)	\$ 0	\$ 1,341,102	\$ 80,084	\$ 0	\$ (22,620,756)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>							
Licenses and Permits		\$ 73,148					\$ 73,148
Taxes	\$ 3,230	204,275	\$ 204	\$ 1,657			209,366
Charges for Services		266,062	40	798,031	\$ 5,899,281		6,963,414
Investment Earnings		318,079	17,386	65,383,951		\$ 27,973,921	93,693,337
Sale of Documents, Merchandise and Property		30,602					30,602
Rentals, Leases and Royalties		156,782					156,782
Contributions and Premiums		21,147				963,867,668	963,888,815
Grants, Contracts, and Donations		697,255	39,643				736,898
Transfers-in		4,114,984	419,859				4,534,843
Federal Indirect Cost Recoveries				6,290	197,750		204,040
Miscellaneous		16,076			1,700		17,776
Federal			11,744,185	35,872,358			47,616,543
Total Revenues & Transfers-In	3,230	5,898,410	12,221,317	102,062,287	6,098,731	991,841,589	1,118,125,564
Less: Nonbudgeted Revenues & Transfers-In	3,230	13,806	274	63,554,927	41	995,917,395	1,059,489,673
Prior Year Revenues & Transfers-In Adjustments		76	211,961	(415,607)		(4,075,806)	(4,279,376)
Actual Budgeted Revenues & Transfers-In	0	5,884,528	12,009,082	38,922,967	6,098,690	0	62,915,267
Estimated Revenues & Transfers-In		6,279,095	17,679,901	40,047,065	6,440,772		70,446,833
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (394,567)	\$ (5,670,819)	\$ (1,124,098)	\$ (342,082)	\$ 0	\$ (7,531,566)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>							
Licenses and Permits		\$ (76,883)					\$ (76,883)
Taxes		(25,771)					(25,771)
Charges for Services		(10,237)		\$ (9,308)	\$ (289,832)		(309,377)
Investment Earnings		(54,083)	\$ (3,975)	(131,236)			(189,294)
Sale of Documents, Merchandise and Property		(29,589)					(29,589)
Rentals, Leases and Royalties		(7,591)					(7,591)
Contributions and Premiums		(353)					(353)
Grants, Contracts, and Donations		(189,675)	(357)				(190,032)
Transfers-in			(7,004)				(7,004)
Federal Indirect Cost Recoveries				(74)	(52,250)		(52,324)
Miscellaneous		(385)					(385)
Federal			(5,659,483)	(983,480)			(6,642,963)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (394,567)	\$ (5,670,819)	\$ (1,124,098)	\$ (342,082)	\$ 0	\$ (7,531,566)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT FOR THE FISCAL YEAR ENDED JUNE 30, 2009											
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	BOARD OF INVESTMENTS	BUSINESS RESOURCES DIVISION	COMMUNITY DEVELOPMENT DIVISION	ENERGY PROMOTION & DEVELOPMENT DIVISION	HOUSING DIVISION	MANAGEMENT SERVICES DIVISION	FACILITY FINANCE AUTHORITY	MONTANA HERITAGE COMMISSION	MONTANA PROMOTION DIVISION	RESEARCH & COMMERCIALIZATION	Total
Personal Services											
Salaries	\$ 1,995,326	\$ 1,619,888	\$ 802,670	\$ 166,293	\$ 1,791,304	\$ 983,842	\$ 143,621	\$ 765,703	\$ 1,267,898	\$ 102,268	\$ 9,638,813
Other Compensation	8,050	150	800		6,550		3,200	2,360		1,650	22,760
Employee Benefits	516,551	499,520	244,307	52,946	599,474	276,958	43,938	246,705	418,598	30,987	2,929,984
Personal Services-Other	63,851				22,931	26,820	5,276				118,878
Total	2,583,778	2,119,558	1,047,777	219,239	2,420,259	1,287,620	196,035	1,014,768	1,686,496	134,905	12,710,435
Operating Expenses											
Other Services	1,151,928	1,490,518	36,407	19,737	6,147,453	20,946	63,301	237,605	3,881,341	3,926	13,053,162
Supplies & Materials	33,168	66,974	32,048	16,590	120,744	107,759	2,412	201,740	134,320	3,238	718,993
Communications	82,372	127,546	37,694	9,022	163,102	43,717	5,801	55,508	5,022,034	4,197	5,550,993
Travel	45,659	136,739	35,642	29,263	113,164	31,939	16,536	55,962	143,163	4,139	612,206
Rent	197,526	158,998	74,694	9,627	213,857	96,428	23,118	9,480	215,703	7,573	1,007,004
Utilities		2,136			126			94,745			97,007
Repair & Maintenance	1,887	13,706	7,490	4,280	177,950	18,380	300	248,207	51,257	329	523,786
Other Expenses	370,349	502,391	170,090	41,346	707,101	41,488	31,650	171,151	716,485	16,816	2,768,867
Goods Purchased For Resale								10,260			10,260
Total	1,882,889	2,499,008	394,065	129,865	7,643,497	360,657	143,118	1,084,658	10,164,303	40,218	24,342,278
Equipment & Intangible Assets											
Equipment	(6,200)					(7,108)		17,154			3,846
Intangible Assets	(7,917)				63,792						55,875
Total	(14,117)				63,792	(7,108)		17,154			59,721
Capital Outlay											
Buildings								114,845			114,845
Other Improvements								32,000			32,000
Total								146,845			146,845
Local Assistance											
From State Sources									3,820,550		3,820,550
Total									3,820,550		3,820,550
Grants											
From State Sources		4,646,785	28,716,526			52,932	28,672		598,330	3,229,180	37,272,425
From Federal Sources		119,783	2,907,660		2,692,340	725,646					6,445,429
Total		4,766,568	31,624,186		2,692,340	778,578	28,672		598,330	3,229,180	43,717,854
Benefits & Claims											
From Federal Sources					34,771,458						34,771,458
STIP Distrib to Local Govts	919,055,656										919,055,656
Total	919,055,656				34,771,458						953,827,114
Transfers-out											
Fund transfers	725,000	7,502,000					500,000		100,000	3,650,000	12,477,000
Total	725,000	7,502,000					500,000		100,000	3,650,000	12,477,000
Debt Service											
Bonds	3,213,256				45,880,124						49,093,380
Total	3,213,256				45,880,124						49,093,380
Other Post Employment Benefits											
Other Post Employment Benefits	101,891				104,420	59,388	3,050				268,749
Total	101,891				104,420	59,388	3,050				268,749
Total Expenditures & Transfers-Out	\$ 927,548,353	\$ 16,887,134	\$ 33,066,028	\$ 349,104	\$ 93,575,890	\$ 2,479,135	\$ 870,875	\$ 2,263,425	\$ 16,369,679	\$ 7,054,303	\$ 1,100,463,926
EXPENDITURES & TRANSFERS-OUT BY FUND											
General Fund		\$ 13,142,748	\$ 632,242	\$ 329,983	\$ 27,240	\$ 8,388		\$ 25,000	\$ 3,650,000	\$ 17,815,601	
State Special Revenue Fund		2,818,698	29,297,992	19,121	27,339	146,687					53,308,697
Federal Special Revenue Fund		925,688	3,135,794		3,712,425	725,646		1,249,878	16,344,679	3,404,303	8,499,553
Capital Projects Fund								1,013,547			1,013,547
Enterprise Fund	\$ 3,521,516				89,808,886		\$ 870,875				94,201,277
Internal Service Fund	4,971,181					1,598,414					6,569,595
Investment Trust Fund	919,055,656										919,055,656
Total Expenditures & Transfers-Out	927,548,353	16,887,134	33,066,028	349,104	93,575,890	2,479,135	870,875	2,263,425	16,369,679	7,054,303	1,100,463,926
Less: Nonbudgeted Expenditures & Transfers-Out	919,934,679	(1,075,000)			(174,582)	101,525			100,000		919,394,948
Prior Year Expenditures & Transfers-Out Adjustments	581	(450,714)	(104,494)		(355,342)	2,877	(3,608)	(1,173)	(99,796)	(13,199)	(1,024,868)
Actual Budgeted Expenditures & Transfers-Out	7,613,093	18,412,848	33,170,522	349,104	94,105,814	2,374,733	366,157	2,264,598	16,369,475	7,067,502	182,093,846
Budget Authority	10,620,769	35,876,132	80,419,975	380,000	135,639,191	3,516,927	409,082	3,818,098	17,460,485	8,101,857	296,242,516
Unspent Budget Authority	\$ 3,007,676	\$ 17,463,284	\$ 47,249,453	\$ 30,896	\$ 41,533,377	\$ 1,142,194	\$ 42,925	\$ 1,553,500	\$ 1,091,010	\$ 1,034,355	\$ 114,148,670
UNSPENT BUDGET AUTHORITY BY FUND											
General Fund		\$ 3,364,131	\$ 12,446,901	\$ 17	\$ 23,167	\$ 11,353					\$ 15,845,569
State Special Revenue Fund		5,091,554	11,484,116	30,879		1,108,210					20,137,284
Federal Special Revenue Fund		8,978,372	23,318,436		8,177,781			297,160	1,091,010	1,034,355	40,494,589
Capital Projects Fund		29,227						20,000			1,265,567
Enterprise Fund	\$ 2,715,012				33,332,429		\$ 42,925	1,236,340			36,090,366
Internal Service Fund	292,664					22,631					315,295
Unspent Budget Authority	\$ 3,007,676	\$ 17,463,284	\$ 47,249,453	\$ 30,896	\$ 41,533,377	\$ 1,142,194	\$ 42,925	\$ 1,553,500	\$ 1,091,010	\$ 1,034,355	\$ 114,148,670

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	BOARD OF INVESTMENTS	BUSINESS RESOURCES DIVISION	COMMUNITY DEVELOPMENT DIVISION	ENERGY PROMOTION & DEVELOPMENT DIVISION	HOUSING DIVISION	MANAGEMENT SERVICES DIVISION	FACILITY FINANCE AUTHORITY	MONTANA HERITAGE COMMISSION	MONTANA PROMOTION DIVISION	RESEARCH & COMMERCIALIZATION	Total
Personal Services											
Salaries	\$ 2,070,822	\$ 1,624,729	\$ 690,953	\$ 143,068	\$ 1,720,919	\$ 886,534	\$ 111,712	\$ 742,932	\$ 1,192,713	\$ 93,054	\$ 9,277,436
Hourly Wages		63	42		23	17			10		155
Other Compensation	6,550	650	1,450		7,650	41	4,300	1,970		1,850	24,461
Employee Benefits	535,642	508,216	209,613	44,248	576,764	247,102	31,708	249,233	391,337	28,960	2,822,823
Personal Services-Other	(8,758)				30,580	6,641	5,411				33,874
Total	2,604,256	2,133,658	902,058	187,316	2,335,936	1,140,335	153,131	994,135	1,584,060	123,864	12,158,749
Operating Expenses											
Other Services	1,109,827	1,288,348	65,756	27,013	4,755,085	27,690	98,102	167,089	3,358,070	5,417	10,902,397
Supplies & Materials	57,697	94,332	27,643	17,388	178,815	41,140	16,688	125,942	234,021	1,809	795,475
Communications	58,298	100,714	22,312	11,843	129,691	20,438	4,297	40,482	3,752,344	2,095	4,142,514
Travel	55,831	151,712	28,594	32,111	157,064	30,704	20,852	50,062	170,091	3,740	700,761
Rent	194,080	151,835	72,349	8,151	196,499	90,549	18,803	6,672	211,285	7,300	957,523
Utilities		1,846			291			72,912			75,049
Repair & Maintenance	1,255	12,342	5,881	359	166,455	3,553	400	68,246	19,528	275	278,294
Other Expenses	635,562	526,754	133,307	41,529	827,724	22,426	26,786	161,884	688,848	27,802	3,092,622
Goods Purchased For Resale								4,525			4,525
Total	2,112,550	2,327,883	355,842	138,394	6,411,624	236,500	185,928	697,814	8,434,187	48,438	20,949,160
Equipment & Intangible Assets											
Equipment						7,108		18,894	47,610		73,612
Intangible Assets					97,650						97,650
Total					97,650	7,108		18,894	47,610		171,262
Local Assistance											
From State Sources									3,848,848		3,848,848
Total									3,848,848		3,848,848
Grants											
From State Sources		7,296,686	3,297,092				38,396		603,073	3,966,656	15,201,903
From Federal Sources		6,542,673	8,174,707		6,341,591	725,646					21,784,617
Total		13,839,359	11,471,799		6,341,591	725,646	38,396		603,073	3,966,656	36,986,520
Benefits & Claims											
From Federal Sources					32,849,114						32,849,114
OPEB Expenses	102,019				101,726	54,545	2,926				261,216
STIP Distrib to Local Govts	1,416,434,184										1,416,434,184
Total	1,416,536,203				32,950,840	54,545	2,926				1,449,544,514
Transfers-out											
Fund transfers					354,886				100,000	3,650,000	4,104,886
Total					354,886				100,000	3,650,000	4,104,886
Debt Service											
Bonds	4,082,405				47,451,010						51,533,415
Total	4,082,405				47,451,010						51,533,415
Total Expenditures & Transfers-Out	\$ 1,425,335,414	\$ 18,300,900	\$ 12,729,699	\$ 325,710	\$ 95,943,537	\$ 2,164,134	\$ 380,381	\$ 1,710,843	\$ 14,617,778	\$ 7,788,958	\$ 1,579,297,354
EXPENDITURES & TRANSFERS-OUT BY FUND											
General Fund		\$ 10,164,602	\$ 497,015	\$ 325,710	\$ 364,746				\$ 25,000	\$ 3,650,000	\$ 15,027,073
State Special Revenue Fund		347,356	3,889,160		661			\$ 1,232,659	14,592,778	4,138,958	24,201,572
Federal Special Revenue Fund		7,788,942	8,343,524		5,865,880	\$ 725,646		40,070			22,764,062
Capital Projects Fund								438,114			438,114
Enterprise Fund	\$ 4,551,684				89,712,250		\$ 380,381				94,644,315
Internal Service Fund	4,349,546					1,438,488					5,788,034
Investment Trust Fund	1,416,434,184										1,416,434,184
Total Expenditures & Transfers-Out	1,425,335,414	18,300,900	12,729,699	325,710	95,943,537	2,164,134	380,381	1,710,843	14,617,778	7,788,958	1,579,297,354
Less: Nonbudgeted Expenditures & Transfers-Out	1,420,597,144				182,259	(279)	8,337		100,000		1,420,887,461
Prior Year Expenditures & Transfers-Out Adjustments	(4,072,824)	(513,792)	(562,189)		(674,493)	(3,000)	2,858	4,581	(24,815)		(5,843,674)
Actual Budgeted Expenditures & Transfers-Out	8,811,094	18,814,692	13,291,888	325,710	96,435,771	2,167,413	369,186	1,706,262	14,542,593	7,788,958	164,253,567
Budget Authority	10,638,675	31,355,856	54,924,030	330,000	122,234,587	2,200,563	409,794	3,602,422	16,018,991	8,129,050	249,843,968
Unspent Budget Authority	\$ 1,827,581	\$ 12,541,164	\$ 41,632,142	\$ 4,290	\$ 25,798,816	\$ 33,150	\$ 40,608	\$ 1,896,160	\$ 1,476,398	\$ 340,092	\$ 85,590,401
UNSPENT BUDGET AUTHORITY BY FUND											
General Fund		\$ 98,360	\$ 488,263	\$ 4,290	\$ 43,977						\$ 634,890
State Special Revenue Fund		3,729,503	34,793,467		176,782			\$ 288,793	1,476,398	340,092	40,805,035
Federal Special Revenue Fund		8,713,301	6,350,412		5,843,712			107,481			21,014,906
Capital Projects Fund								1,499,886			1,499,886
Enterprise Fund	\$ 1,561,762				19,734,345		\$ 40,608				21,336,715
Internal Service Fund	265,819					33,150					298,969
Unspent Budget Authority	\$ 1,827,581	\$ 12,541,164	\$ 41,632,142	\$ 4,290	\$ 25,798,816	\$ 33,150	\$ 40,608	\$ 1,896,160	\$ 1,476,398	\$ 340,092	\$ 85,590,401

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.



## Department of Commerce Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2009

### **1. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Capital Projects) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Investment Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

#### **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

#### **Governmental Fund Category**

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue funds include Hard Rock Mining, Montana Heritage Commission, Treasure State Endowment, Research and Commercialization, and Accommodations Tax.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue funds include assistance programs such as Community Development Block Grants, Home Investment Partnership Program, Workforce Innovation in Regional Economic Development, and Small Business Administration.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by Proprietary funds or Trust funds. The department uses this fund to account for costs of historic preservation and supporting improvements in Virginia and Nevada Cities.

### Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service funds include the Investment Division and Commerce Centralized Services.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the department finance or recover costs primarily through user charges; (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise funds include Facility Finance Authority, Board of Housing, Board of Investments Industrial Revenue Bonds, and Section 8 Housing Programs.

### Fiduciary Fund Category

- ♦ **Investment Trust Fund** – to account for situations where legally separate governments commingle their investments in a pool for the benefit of all participants. Department Investment Trust fund is comprised of the Short Term Investment Pool investing activity for local governments.

## 2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets

from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2009, and June 30, 2008.

### **3. Direct Entries to Fund Balance**

Direct entries to fund balances in the General, State Special Revenue, Capital Projects, and Internal Service funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balances in the State Special Revenue and Enterprise funds also include entries to record or adjust fund balance reservations or designations.

### **4. Housing Division**

The department contracts with field agents to perform certain services for the federal Section 8 Vouchers program. In fiscal year 2007-08, the department recorded payments for field agent contracts of \$1,301,120 as grants from federal sources on the state's accounting system. In fiscal year 2008-09, payments for these contracts totaling \$1,338,335 were appropriately classified as operating expenses.

### **5. Revenue Estimates**

Estimated revenues and transfer-in exceeded actual budgeted revenues and transfers-in in the state special revenue fund by \$12,305,527 on the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2009. This difference resulted from estimated transfers from the General Fund to finance appropriations from House Bill 645 of the 2009 Legislative Session that were not received prior to fiscal year-end. Differences in the federal special revenue fund are related to grant projects not completed during the fiscal year.

### **6. American Recovery and Reinvestment Act**

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery. The Department of Commerce expects to receive federal funding from ARRA totaling approximately \$43,126,738. Of this amount, \$40,426,738 was appropriated in House Bill 645 of the 2009 Legislative Session, \$2,700,00 was awarded through other competitive or noncompetitive grants or in nonmonetary assistance. As of June 30, 2009, the department had neither received nor spent any of the funds. Additionally, the department has applied for, but not yet received, approximately \$5 million in additional ARRA assistance.





DEPARTMENT OF  
COMMERCE

DEPARTMENT RESPONSE



# MONTANA

Department of Commerce

B-3

Anthony J. Preite, Director

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Phone 406-841-2700 ★ Fax 406-841-2701 ★ TDD 406-841-2702 ★ <http://commerce.mt.gov>

September 23, 2009

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LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, Legislative Auditor  
Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
Helena, Montana 59620-1705

Dear Ms. Hunthausen:

We have reviewed the recommendations pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ended June 30, 2009. Our response is as follows:

#### **RECOMMENDATION #1**

**We recommend the department implement procedures to recalculate housing assistance payments when the initial calculation includes fair market rent or utility rates from the previous year.**

#### **Response:**

The department concurs. The Section 8 program will run a query for the month of the rate change to assure the current year rates are being utilized in the rent calculations. Any housing assistance payments calculated with prior year rates will be recalculated when the new rates are available. Section 8 contracted agents and department employees have received training specifically on income and rent calculations.

#### **RECOMMENDATION #2**

**We recommend the department enhance controls to ensure the required number of housing quality control reinspections are conducted annually at each field agent office, as required by federal regulations and the department's administration plan.**

#### **Response:**

The department concurs. The administrative manual was amended to adjust the number of HQS (Housing Quality Standards) reviews beginning July 1, 2009. This amendment will accomplish a number of goals allowing the contract managers more time to address specific needs with each agency rather than only focusing on the HQS. HUD is in the process of reviewing all our changes to the administrative plan.

BRIAN SCHWEITZER, GOVERNOR

**RECOMMENDATION #3**

**We recommend the department submit the Section 8 Management Assessment Program report within 60 days after fiscal year-end, as required by federal regulations.**

**Response:**

The department concurs. The Section 8 program will submit the Section 8 Management Assessment Program (SEMAP) to the federal government within 60 days of fiscal year end. The program will be cognizant of and submit the report before access to the federal site is closed for the period.

**RECOMMENDATION #4**

**We recommend the department enhance internal controls to include a review of special claims approved by program managers to ensure proper and complete payment of special claims as required by federal regulations.**

**Response:**

The department concurs. The Section 8 special allocations program will require a secondary review of special allocations claims decisions prior to finalization to ensure claims are properly supported and consistent with federal guidelines.

**RECOMMENDATION #5**

**We recommend the department:**


- A. Establish a coal area highway improvement account in the state special revenue fund as required by state law,**
- B. If necessary, seek a change in state law to eliminate the requirement for the coal area highway improvement account.**

**Response:**

The department concurs. A Coal Area Highway State Special Revenue Fund Account has been established as required by law. Although not immediately funded, the Community Development program would have the option of moving funds into it if state policy makers want to initiate major highway improvements, through the Coal Board, in support of regional coal development.

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,

  
Anthony J. Preite, Director  
Department of Commerce